

Message Text

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ACTION NEA-10

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TAGS: ECON, EFIN, IS
SUBJECT: FINANCE MINISTER AND GOVERNOR OF BANK OF ISRAEL COMMENT ON
NEW ECONOMIC MEASURES

REF: (A) TEL AVIV 5271, (B) TEL AVIV 5354

1. BEGIN UNCLASSIFIED. DURING THE JULY 19 KNESSET
BEDATE OVER THE BUDGET AND FISCAL MOVES ANNOUNCED JULY 17
(REF A), FINANCE MINISTER EHRLICH STATED, INTER ALIA,
THAT:
--THE MOVES ARE A BELT-TIGHTENING MEASURE TAKEN BEFORE
TURNING TO THE U.S. FOR MORE ECONOMIC ASSISTANCE;
--REAL WAGES HAVE RISEN 12 PERCENT IN THE FIRST HALF
OF 1977 AND WILL BE UP 8 TO 10 PERCENT FOR THE WHOLE
YEAR;
-- NOMINAL WAGES WILL RESE 43 PERCENT IN 1977;
-- THE PROJECTED BUDGETARY DEFICIT WOULD HAVE DESTABILIZED
THE ECONOMY, INCREASED THE RATE OF INFLATION, INCREASED
CONSUMPTION AND IMPORTS, IMPAIRED THE PROFITABILITY OF
EXPORTS, AND ERODED THE FOREIGN CURRENCY RESERVES;
-- THE SUBSIDY CUTS AND THE BUDGET CHANGES COULD
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NOT BE DELAYED UNTIL A MORE COMPREHENSIVE ECONOMIC
PROGRAM WAS DRAWN UP;
-- AN EXTRA 5 PERCENT WILL BE ADDED TO THE INFLATION
RATE BY THE NEW MEASURES;
-- A JOINT GOI-BANK OF ISRAEL TEAM HAS BEEN APPOINTED
TO CALCULATE THE COMPENSATION FOR LOW-INCOME FAMILIES
WHO ARE MOST AFFECTED BY THE ECONOMIC MEASURES;

-- THE GOVERNMENT WILL SEEK A DIALOGUE WITH THE HISTADRUT ON THE COMPREHENSIVE PROGRAM. (IN A SUBSEQUENT INTERVIEW HE MENTIONED JANUARY 1978 AS THE TARGET DATE FOR THE COMPREHENSIVE REFORMS.)

2. IN A PRESS INTERVIEW ON JULY 19, BANK OF ISRAEL GOVERNOR ARNON GAFNI SAID HE WOULD HAVE PREFERRED THAT THE GOI HAD CUT PUBLIC SERVICES RATHER THAN SUBSIDIES. HE OPPOSED FURTHER REDUCTIONS IN DEVELOPMENT EXPENDITURES. GAFNI SAID THE BANK WOULD HONL BACK ON DIRECTED CREDIT TO ALL BUT FIRST PRIORITY PROGRAMS. IF THE MINI-DEVALUATIONS CONTINUE, REAL WAGES ARE FROZEN, AND NO FURTHER DEFICIT FINANCING OCCURS, GAFNI PREDICETD A GROWTH RATE OF 4-5 PERCENT PER YEAR OVER THE NEXT TWO YEARS, WITH EXPORTS INCREASING BY 10 PERCENT A YEAR AND INDUSTRIAL EXPORTS AT A 28 PERCENT RATE. END UNCLASSIFIED.

3. BEGIN LIMITED OFFICIAL USE. COMMENT: THE REAL WAGE GROWTH FIGURE GIVEN BY EHRlich IS THE FIRST OFFICIAL ESTIMATE THE EMBASSY HAS HEARD WHICH FULLY QUANTIFIES THE EFFECTS OF RECENT WAGE HIKES. IT IS NOTEWORTHY THAT EVEN AFTER SO-CALLED BELT TIGHTENING, REL WAGES ARE EXPECTED TO RISE SHARPLY. IF HIS CALCULATIONS ON INFLATION ARE CORRECT, THIS IMPLIES LIMITED OFFICIAL USE

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THAT THE RISE FOR ALL 1977 WILL BE 28 PERCENT, 10 PERCENT LESS THAN IN 1976 BUT 3 PERCENT ABOVE THE NATIONAL BUDGET ESTIMATE. THE EMBASSY BELIEVES THAT THE RATE IS MORE LIKELY TO BE 30-35 PERCENT.

4. GAFNI'S GENERAL SUPPORT FOR THE NEW MEASURES IS TO BE EXPECTED, AS IS HIS PLEDGE TO JOIN IN THE FIGHT AGAINST INFLATION, WHICH HE CONSIDERS THE LARGEST IMMEDIATE ECONOMIC PROBLEM, BY RESTRICTING CREDIT. BECAUSE OF THE VAGUE WAY THEY WERE PRESENTED, IT IS UNCLEAR WHETHER HIS GROWTH FIGURES, WHICH DEPEND ON SOME TENUOUS ASSUMPTIONS, REPRESENT CHANGES FROM PREVIOUS ESTIMATES. DUNNIGAN

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